

**REPORT OF THE AUDITOR-GENERAL TO THE MUNICIPAL COUNCIL AND THE MPUMALANGA
PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE
INFORMATION OF THE GOVAN MBEKI LOCAL MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2007**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Govan Mbeki Local Municipality (municipality) which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
 - designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
 4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
 5. An audit involves performing procedures to obtain audit evidence about the amounts and
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disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.

6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by the municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the Govan Mbeki Local Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA.

Emphasis of matter

11. Without qualifying my audit opinion, I draw attention to the following matter:

Basis of accounting

12. As set out in accounting policy note 1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 522 of 2007*, issued in *Government Gazette No. 30013 of 29 June 2007 (General Notice 522)*.

OTHER MATTERS

13. I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

14. The financial statements of Johannes Stegman Theatre Donors Trust were not attached as an annexure to the financial statements of the municipality in terms of clause 2(3)(c) of *General Notice 522*. Furthermore, the bank account of Johannes Stegman Theatre Donors Trust was not in the name of the municipality in terms of section 12(1) and 12(2) of the MFMA.

Matters of governance**Internal audit**

15. The municipality did not have an internal audit unit in terms of section 165(1) to (3) of the MFMA to perform internal audits, advise the accounting officer and report to the audit committee on the following matters:

- Implementation of a risk-based audit plan
- Internal controls
- Accounting procedures and practices
- Risk management
- Performance management
- Loss control
- Compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation

Audit committee

16. Although an audit committee existed, it had to serve the district municipality and seven local municipalities in the district. The audit committee could therefore not effectively advise management and council on the following matters as prescribed in section 166 of the MFMA:

- Internal financial control and internal audits
- Risk management
- Accounting policies
- The adequacy, reliability and accuracy of financial reporting and information
- Performance management and evaluation
- Effective governance
- Compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation

Internal control

17. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Non-compliance with legislation			✓	✓	✓
Matters of governance			✓	✓	✓

Unaudited supplementary schedules

18. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

19. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646*, issued in *Government Gazette No. 29919 of 25 May 2007 (General Notice 646)* and section 45 of the MSA.

22. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Content of the integrated development plan (IDP)

24. The IDP of the municipality did not include performance targets in terms of sections 26(c) and (l) of the MSA. Furthermore, the key performance indicators set by the municipality did not include any general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA.

Quarterly reporting on performance information

25. Quarterly reports on the progress in achieving measurable objectives and targets were not prepared as a whole for the municipality, to facilitate effective performance monitoring, evaluation and corrective action as required by regulation 14(1)(c) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

26. The municipality did not develop and implement mechanisms, systems and processes for the auditing of results of performance measurement on a continuous basis. Quarterly reports were therefore not submitted to the municipal manager and the performance audit committee as required by regulation 14(1)(c) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

Existence and functioning of a performance audit committee

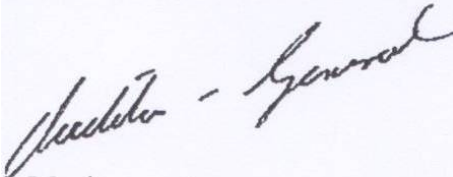
27. The audit committee did not advise the municipal council on matters relating to performance management and performance evaluation, as required by section 166(2)(a)(v) and (viii) of the MFMA and regulation 14(4)(a) and (b) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

Performance information not received in time

28. I was not able to complete an evaluation of the consistency and quality of the reported performance information as set out on pages xx to xx of the annual report, since this information was not received in time as required by clause 4 of *General Notice 646*.

APPRECIATION

29. The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.



Nelspruit

18 December 2007



AUDITOR - GENERAL